



## “Sonata Software Limited Q2 FY'22 Earnings Conference Call”

**October 20, 2021**



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**Moderator:**

Ladies and gentlemen good day and welcome to Q2 FY'22 Earnings Conference Call of Sonata Software Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy -- Managing Director and CEO, Sonata Software Limited. Thank you and over to you, sir.

**P. Srikar Reddy:**

Thank you, Margaret and good morning, everybody who joined us this morning. Today with me on the call Mr. Jagannathan Chakravarthi -- our CFO; Mr. Sathyanarayana -- the Head of Finance; Mr. Sujit Mohanty -- Head of our India and Asia Business and Mr. Ranganath Puranik -- Chief Growth Officer based out of the US.

As you know the results have now been posted on our website post the announcement on the board meeting yesterday. So, I'll quickly take you through some of the qualitative highlights of the performance of the last quarter and then some headline outlook of where we see today the business in the next few quarters. As I did mention last time the demand continues to look extremely promising. I had also mentioned last time that there were and have been and continue to be supply constraints as you all are aware of overall the current context on the supply side in the industry. We have as mentioned put in a lot of I think initiatives to create capacities for alternate sources for talent both in India and outside India, also look for opening up proximity, delivery centers in some of the markets that was to serve our clients better and also address some of the talent issues. So, as I said overall the demand situation looks good. We are addressing the supply constraints as even if you factor in the additional capacity, we got from the acquisition of Encore we have added I think a net of about 300 people last quarter and I believe that we should continue to be able to do that similarly as we go forward both for meeting our current needs and actually investing and planning for the future. I think that's what we are doing to ensure that we have the sufficient capacity two to three quarters from now which has been really created internally and are able to meet any kind of needs which we will have going forward.

So, overall if you take each of our business segments, the international business I think we have seen a good growth across most of our industry verticals. We continue to see a growth in our digital services business, again I think primarily based on and driven by our whole platformation theme and value proposition and approach to market along with the Microsoft alliance-led go-to-market.

On the domestic business, we continue to see extremely steady growth as I said and we continue to see that as we go forward both driven by demand in the market, additional partnerships we have signed, more shift from our clients to cloud leading to more I would say annuity-led arrangement. We have made this acquisition of Encore which we had announced in the last meeting, but it had just happened. Now we have had about a couple of months acquisition, so that starts going well and some of the figures are reflected in the current quarter.

Our GBW'S CX business, as the COVID rate is reducing in various markets we are seeing some of the markets come back. Again, we are investing a lot more into that business. So, while we see a top line growth, we may not see a commensurate growth, in fact while the margins in that business are good because of the investment both in marketing, people and the development of the CX platform.

Overall, net-net we continue to see the demand being good across all the geographies, across all the industry verticals. We are doing, have done and will continue to do a lot to ensure we meet the supply-related issues as we go forward.

And overall, I think the margins continue to be healthy although there are obviously increases in costs driven by the supply side this thing if you do a limited one-off item which we had last quarter, our margins this quarter continue to be decent while on the organic basis the margins growth has not been significant while the growth in revenue has been about, I think 5%, 5.5% on the international services side. So, as I said we continue to see a very robust, promising demand situation, continue to invest in a lot more senior talent, we have added more senior talent, we had done some last quarter, we've done some this quarter both beefing up our cloud and cyber security side of the practice, we had created the large deals team last quarter and then the deals team is operational, will continue to invest in senior talent and creating for growth. So, that's I guess in a nutshell about the performance of the quarter and our visibility for the future

I'll hand it over to Jagan to take you through some of the details of the financials for the quarter and then we'll take questions that you may have at the end of Jagan's presentation. So, thank you all again and over to Jagan.

**J Chakravarthi:**

Thank you, Srikar. Good morning, all. Welcome to Sonata's Earning Conference. We will get into the quarterly financial performance. We have continued to have robust growth in our revenue; the consolidated revenue has continued to have a quarterly CQGR of 4% and EBITDA CQGR is 3% and PAT CQGR is 3.2%. We continue to have a robust profitability and revenue growth in both the India business as well as international business.

In the international business, the revenue CQGR growth has been consistently high. In spite of the supply side constraints which Srikar was highlighting, we continue to grow the revenue very well. Our margins have expanded in this quarter and we are doing well both in terms of EBITDA as well as in terms of PAT. With the addition of Encore, strength in our expanded verticals also doing well. We continue to have a robust outlook for the next few quarters on the growth side.

Domestic business has been consistently doing well. This is like a seasonal this thing. We have been highlighting about the revenue, please don't measure this business on revenue, please measure this on gross contribution. If you see here the gross contribution is consistently around 3.94%. This is the continued growth we have both in EBITDA as well as gross contribution and the PAT percentage has been good for this quarter. This business is seeing a new growth perspective with the advent of cloud option by a lot of Indian companies, we continue to see a

lot of growth in this business in the coming quarters and this has also performed very well on the cash collection perspective and the working capital investment perspective, the return on capital employed continues to be robust in this business.

This is broadly the financial summary of how much is the international revenue and also the domestic revenue. You can see the international revenue has solid growth of 11% quarter-on-quarter and year-on-year growth of 25%. The EBITDA percentage has also been solid in this business and we will continue to have robust growth of EBITDA in terms of continued growth in revenue and we expect there can be some cost increases coming in because of the demand in the market and also supply-side constraint but we are very-very confident of doing well both in front of revenue and the PAT perspective in the coming quarters.

On some of the operational metrics, the US business continues to be the largest contributor for us. This quarter we have a little higher US contribution and in terms of industry verticals, our ISV vertical has done well, and we continue to have robust growth in many other verticals like the retail essential has continued to be growing very well for us and also the travel has continued to be maintained at the same level. And key digital services are really doing well, particularly dynamic services and also the rest of the digital platformation services have been robust and we continue to see the growth coming in this quarter. We continue to see the offshoring little bit increase in this quarter compared to last quarter; however, we feel that over a medium-term perspective, this will get moderated a little bit. Our IP-led revenue is continuing to remain at 35%.

A few more operating metrics. With this for this quarter eight new clients have been added and we have added more than a million-dollar customer, five new customers have been added. The top five customers contribution remains very robust, and our headcount addition has been very strong apart from the additions from Encore, we have also got a solid addition organically with this company. And on sales and marketing as Mr. Srikar highlighted, we continue to invest and expand, more investments are happening. We expect this to add to our growth in the coming quarters.

With this I conclude my financial presentation. Hand it back for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohan Kumar from MJ Financial. Please go ahead.

**Mohan Kumar:** Please forgive my ignorance over here. I'm relatively new to the company and I just wanted to understand what's driving the seasonality over here because I've noticed that for the last couple of years the Q2 tends to be relatively weaker versus the rest of the year. So, can you please throw some light on that?

**P. Srikar Reddy:** The seasonality as I mentioned is in our domestic business and the domestic business depends upon sometimes lumpy deals which happen in quarters, so typically in Q2 there are less of these

large deals, so typically large deals mean lower margins, so when you have deals are larger the percentage of the margin will decrease. So, as Jagan mentioned we manage this business based on gross margin and not on absolute margin. So, that's what we have been mentioning in the last 30, 40 quarters where we have tried to describe what this business is or it is managed kind of stuff and that gross margin continues to steadily increase and because of that the PAT keeps increasing.

**Mohan Kumar:** One more question on similar lines. The margins have expanded considerably in this quarter. So, can we expect that trend to continue because you've spoken about supply side concerns but despite that looks like pricing power is really coming in, so can you throw some light on what can we expect probably the next couple of quarters, maybe the next couple of years while demand continues to remain solid?

**P. Srikar Reddy:** I would stay cautious in the immediate future. While we will work towards retaining the margins given the pressure on the supply side, but in the long term I think the margins should be robust when things stabilize and one is going to get back to a more stable situation on the supply side, one can expect the margins to be better but in the short term everybody's guess, but one is all expecting, it's about at least three to four quarters where one can be dependent on the dynamic on the supply side in the market.

**Mohan Kumar:** I remember during the last call you had alluded to growth on a YoY basis of close to 20% and the last two quarters have been really strong. So, can we expect probably to see a number slightly higher?

**P. Srikar Reddy:** Subject to the supply side, next quarter we'll have a lot more vacations and stuff like that, but overall, I think as I mentioned last time don't see any reason why we shouldn't meet that number.

**Moderator:** The next question is from the Baidik Sarkar from Unifi Capital. Please go ahead.

**Baidik Sarkar:** A couple of questions. Could you flesh out the moving parts within the managed cloud practice for us, what is driving this kind of momentum, is this our non-Azure practice and what is the service components within this...?

**P. Srikar Reddy:** Managed cloud services have got two components really; one is the infrastructure related services for cloud which are mainly management of the cloud infrastructure or migration which are really differentiated to a cloud environment. Then on the development side there are cloud native application developments, modernization of existing cloud applications onto the cloud. So, these are the two service categories which are there in the managed cloud services and in the initial phase we are seeing more on the managed services and migration and now we are seeing more demand pick up also on the native cloud development and modernization and so on and so forth.

**Baidik Sarkar:** And also, the practice, within the Microsoft digital platform how much of this is project-based versus annuity and is this primarily Azure migration or is there a cloud native development practice as well?

**P. Srikar Reddy:** Microsoft digital platform is really the dynamics platform and the surround of the dynamics. So, that's the Microsoft digital platform. And then there is the azure, cloud which is a separate platform.

**Baidik Sarkar:** How is that different from what you report within Microsoft Dynamics? Unless I interpret this wrong you report the practice areas around Microsoft as Microsoft Dynamics as well as Microsoft digital platform. You're saying a part of Microsoft digital platform also does work for dynamics, did I hear you right?

**P. Srikar Reddy:** Okay, let me just then step back. We are reporting the dynamics separately and the dynamics is separate then the digital platform is on dynamics part of the Microsoft which is then azure and data.

**Baidik Sarkar:** Just a bookkeeping question on your reported growth. Except acquisition that you completed last quarter what is the constant currency number?

**P. Srikar Reddy:** Organic revenue growth on international services has been I think 5% or 5.5% on the revenue. And the margin if we adjust for that one-time, we took last quarter on the ILFS and all that, I don't know, I can ask my finance team to share it but my feeling is the margin would also be of the similar nature but if you just see the reported number and the margin growth may be about a per cent.

**Baidik Sarkar:** The run rate on your top client and travel seems to have stagnated although the EU travel seems to have come back quite strongly. Is the outlook looking any better than what it was a couple of quarters back?

**P. Srikar Reddy:** That's one account where we have had supply challenges, otherwise outlook looks good.

**Moderator:** The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** Three questions: one was related to ISV OPD revenue growth like it appears that some part of the acquired revenue has gone into that because healthcare revenue which is shown separately is a small component of the overall integration. So, can you give us what was the growth in ISV sequentially and what is the outlook there in that particular segment?

**P. Srikar Reddy:** I can ask our finance team to share the number because as we said some part of the Encore team, I don't know what part of the Encore revenue is, three are three segments; logistics, ISV, and healthcare.



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- J Chakravarthi:** Major portion is between healthcare and logistics. The small portion has been added to the ISV segment which is about 20% of the revenue of Encore, the quarterly revenue.
- Mohit Jain:** What is the outlook there from an ISV segment perspective on an organic basis like what kind of growth rates are we seeing in terms of recovery, acceleration, etc.,
- P. Srikar Reddy:** As we said, we are seeing growth across all the segments...
- Mohit Jain:** Sir, why I am asking this is generally hi tech is accelerating versus the rest of the segments. As Baidik also asked you, you are aligned in the right technology area and the client. So, should we expect for us also ISV will be accelerating and outperforming the other segments, or do you think it will be evenly spread from Sonata's perspective?
- P. Srikar Reddy:** If we see my current deal pipeline both existing and new that we have, right, I'm seeing a more unified distribution.
- Mohit Jain:** The second was on IT Services margins. Last quarter also you opened some centers abroad and I think in the last call you said that as things normalize you have plans to diversify the delivery base. Also, there are these wage pressures in India. So, what kind of IT Services margins are you looking at from a steady state perspective?
- P. Srikar Reddy:** I mentioned to the previous person. I would be cautious for the next three, four quarters while we try to manage it both sides, trying to get some extra revenue and trying to manage these costs through more very creative talent development initiatives, but I would remain cautious, it's very difficult, I don't know to predict because it's pretty volatile right there. So, don't know what that number will be. So, I would rather be extremely cautious at this time. To be cautious we are trying to manage this but very difficult to predict. So, I would say that let us be cautious for the next three to four quarters.
- Mohit Jain:** Cautious could be like 100, 200 basis points impact or do you think could it be like severe or something?
- P. Srikar Reddy:** I don't know. That's what I'm trying to say, what is the impact on both the sides. At this stage I would say let's take a qualitative statement of let us be cautious and will be good if we can surprise ourselves as we go forward.
- Mohit Jain:** Last is a repeat question for last many calls. Now this time you said travel you are turning positive. Our previous run rate of course was much higher, and we are sort of at a much lower number, also IT services industry has recovered on the travel side. So, now given this revised outlook, etc., that you have on European travel, is there a way we can say that in let's say three quarters, four quarters, you can go back to the previous high, is there something...?

**P. Srikar Reddy:** I think so. As I said we have more of our supply constraint had impacted that particular business. So, demand is picking up more or less. The client is back to 80% of 2019 numbers. So, we're hoping to get back to 100% of 2019 numbers in the next one or two quarters. So, the demand is not a problem and we are working towards solving the supply side issue. So, to that extent, yes, the demand looks extremely robust.

**Mohit Jain:** So, this quarter travel stagnation was more to do with supply than demand from the top end?

**P. Srikar Reddy:** Yes, absolutely, total.

**Mohit Jain:** So, if the hiring stays the way it has been in 2Q, you expect...

**P. Srikar Reddy:** Backfill everything, yes.

**Moderator:** The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** Just to extend the question on the travel vertical, so you said that you will reach 100% of 2019 number. So, I just like to understand on travel with the larger client so is the growth will be mostly like linked to the recovery in the travel and is it like volume linked or have we increased the scope of work with the larger client or is it like newer areas that we're working in or is it just the recovery of the volumes that like we were doing earlier only on the travel vertical? Second is if you can share that how has been the attrition? And on the margins front we have done know pretty well but we have mentioned that we are likely to build a bench especially for the Microsoft Practice. So, how that is going to impact the margins in the coming quarters?

**P. Srikar Reddy:** A lot of questions. On the travel side, yes, right now what in the last 18 months the focus was on building new stuff because they were wanting to use that opportunity to create new stuff, right. Once things come back to normal, then we will go back to doing, actual keeping the business going work and that should start picking up. So, that's where we will expect growth to come from. The new thing is what we have been doing already kind of thing. So, that's on the travel business. And I guess your next question was around attrition, it has been about 23% to 25%. And then the next question you had was on margins. I have answered that question. We factor all this building capacity and all that into what we're trying to do but also trying to ensure that we keep the margins where we are. So, very difficult at this stage to give an exact number and I've answered this question to the two previous people also.

**Amit Chandra:** I was just trying to understand from the angle that we are trying to build a bench, right. So, will that have an incremental impact on the margin? Obviously, we are okay with this kind of margin band that we're working with.

**P. Srikar Reddy:** The bench is already there, I mean as I said 300 people we had almost added, I think 500, 600 people in the last two quarters without the acquisition numbers. I'm less concerned because that's controllable cost. The uncontrol cost is the lateral part which is we need to do to meet



immediately and that's where I think I will be cautious of either doing backfill or meeting immediately not waiting for the bench which has been created, right. If you want to create a deliverable bench that means, you take x kind of people and then create the training and all that. These are not trainees; these are again experienced people but the different skills and how we train them on digital skills and then put them on the projects. So, that's a more controllable phenomenon, so that's factored in. It's really what the lateral impact both meeting immediately and backfilling and what that impact can be what I want to be cautious about.

**Amit Chandra:** On the international business, what is this subcontracting cost and how that has changed? Obviously, that has gone up for the industry. Ours is somewhat like different from the industry or there is...?

**J Chakravarthi:** We have not disclosed any specific numbers on that, but the subcontracting cost is remaining at the similar levels; it has little come down compared to last quarter.

**P. Srikar Reddy:** They think it's gone up for others so that's why they are asking.

**J Chakravarthi:** The last quarter we have invested a lot because of supply side constraints and COVID impact. This time little bit moderation has happened but it's not substantially different.

**P. Srikar Reddy:** I guess if you can share that number going forward that will be useful because that's a metric

**J Chakravarthi:** Yes.

**Moderator:** The next question is from the line of Mohan Kumar from MJ Financial. Please go ahead.

**Mohan Kumar:** One question on the hiring front. You mentioned that you are looking to hire more numbers. Wanted to know if there is a number around how many people that you probably would be hiring over the next two to three quarters and would that be largely backfilling or would that be kind of to build up new capacity? And just a follow-up on that; I've noticed in your presentation that the utilization is around 80%. So, do we see a position where we probably get utilization to go up over the years?

**P. Srikar Reddy:** No, not for the next two to three quarters. On your hiring question, it will be both, I mean, three things, backfilling, immediate needs, and future demand. Looking at a maybe a gross number of about possibly 600 people a quarter.

**Moderator:** The next question is from the line of Dhiraj Dave from Samvad Financial. Please go ahead.

**Dhiraj Dave:** One question I had is related to slide #19. We see the lowest customer addition. In fact, if we see this in last four quarters, we just added eight customers as per the presentation in Q2'22 in international business. One part is that. And if I look at the new million customer data, I find that we have almost like 36 new million customers but five are being added from Encore

acquisition. So, if I take that then basically there is no sequential improvement. So, any reason why we are not seeing despite with great demand why we are not able to scale up our customers to 1 million kind of it, any thought on that?

**P. Srikar Reddy:** No, our description of a million customer is not the customer has the potential to give us a million dollars. The thing where the customer reaches the annuity rate of their million dollars. Are you understanding the difference?

**Dhiraj Dave:** No, the point is that if I look at past data, we used to have at least one, two addition every quarter, if I look at Q2'21 to Q1'22, we find that there has been...

**P. Srikar Reddy:** Correct, what I'm trying to say is that addition is not that the customer was acquired in the previous quarter. You are understanding what I'm saying?

**Dhiraj Dave:** Yes, that I understood, that it reached the one million milestones.

**P. Srikar Reddy:** We acquired some time back. Now that reached a million-dollar run rate business. So, it can vary based on when each of these customers hit a run rate business, that's all I'm trying to say.

**Dhiraj Dave:** So, the company is optimistic that over a period of time many of customers will reach, probably the timing issue?

**P. Srikar Reddy:** Who have been acquired we convert into a million-dollar run rate customer, that's correct. When we have more and more people with more potential, to that extent we are getting very selective about the client we are adding to our portfolio, these numbers will not be as high as in the past.

**Dhiraj Dave:** So, these five customers which we have million dollars approximately from Encore, can you provide some geographical distribution -- is it US based?

**P. Srikar Reddy:** Encore is a 100% US company.

**Moderator:** The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

**Vipul Shah:** My question is can you give the financials of encore and what capabilities it brings to the table?

**P. Srikar Reddy:** Okay, let me answer the second question first and I'll ask my finance team to answer the first question. So, the capability as I said the industry verticals is healthcare, logistics and ISV. The main capability is on the cloud services and then the digital assurance services.

**J Chakravarthi:** We have disclosed this during the acquisition also. They have a run rate of around \$15 plus million of revenue with about 20% of EBITDA we are earning.

**Vipul Shah:** Annually, right?

- J Chakravarthi:** Annually, yes.
- Vipul Shah:** Mr. Jagannath, can you give me employee cost specifically for IT services for this quarter and last quarter?
- J Chakravarthi:** Employee cost is disclosed in our financials. You can get from there. Reg. 33 has the details of all those things.
- Vipul Shah:** For IT services specifically?
- J Chakravarthi:** IT services employee percentage has not changed specifically as a percentage of revenue; I will prepare for it and then disclose it on the website.
- Vipul Shah:** Can you give this subcontracting expense exact number for last quarter?
- P. Srikar Reddy:** As he answered to the previous question, he doesn't have it, when he discloses it and puts it out, he'll share that also with you.
- Moderator:** The next question is from the line of Uday Peters from Khona Wealth Management. Please go ahead.
- Uday Peters:** My question is you mentioned there are supply side constraints. So, could you highlight what are the three biggest supply side constraints you are facing and what is the risk mitigation strategy for the same?
- P. Srikar Reddy:** Supply side constraints are attrition, then getting the right people at the right cost in the market at the right time and the third is ensuring that the people who are offered, actually join the company. So, these are the three supply side constraints. On mitigation strategy, we have done an interim compensation review, we are looking at another compensation review, partly something this quarter and then starting with a quarter of January 1<sup>st</sup>, just on compensation to improve. Retention of course there are a lot of employee engagement initiatives, career planning, career migration, moving them to the right project, giving them higher roles, all that kind of stuff. So, that's the second part of their own career and all that kind of stuff to get the attrition down. The second is we have scaled up our recruitment capacity by I think 5x, we have increased our recruiting team from about 15 to 50 and we got some recruitment plus outsourcing and then we're looking at other markets both tier three, tier four rural India, rural outsourcing, and some other countries for getting talent. So, that's on the talent this thing. Third is like I think if somebody today quits and has five jobs, you can't do anything about ensuring what percentage of offers you make join you. So, all we are doing is that as I said the key biggest thing, we are doing is to proactively create capacity and that is the largest risk mitigation strategy we're implementing.

**Uday Peters:** The thing is employee cost has increased substantially for all IT companies in the last nine to 12 months and that's an industry wide thing. So, Sonata-specific, or industry-specific what do you think... it cannot keep exponentially growing, right, so there is a point at which companies...?

**P. Srikar Reddy:** You have to create your own capacity, that's what I'm trying to say, you keep what is the popular concept called the "Pyramid" in the industry, I mean you focus on the pyramid. So, right now the pyramid has become top heavy. So, we will get it back to the normal stuff. For that you just need to create capacity, there's nothing else you can do about it, I mean, you go into the market, you want somebody, the cost will go up, there's no other option.

**Uday Peters:** My final question is the team of digitalization which played very well for many IT companies especially companies like yours during the COVID period. So, can we assume that trend overall is still on exponential growth or it has tapered down to some extent because a lot of people have adopted that already?

**P. Srikar Reddy:** Not yet I think there is still a reasonable amount of tailwind on that thing. So, how long? We don't know, but it's not that the digitalization if it was 15% to 18% growth kind of stuff before the pandemic has just jumped up to about 30% even if it goes back to 18% or whatever, it will be on a much higher base. To that extent it's not going to become less than what it was before the pandemic. It's just boosted up in the interim and that will continue for at least a few quarters, this pump up.

**Uday Peters:** So, can we assume at least another two years this trend will continue with 15% growth rate?

**P. Srikar Reddy:** Digitalization is going to continue. We don't know how long, right. That's not what we are talking about. It's this extra pump, I'm thinking that the extra pump, by additional demand coming on already a high growth service lineup in last two to four quarters, that's my estimate and anybody's guess is as good as mine.

**Moderator:** The next question is from the line of Mohan Kumar from MJ Financial. Please go ahead.

**Mohan Kumar:** Are you looking to do any more acquisitions across the world? I know you've done a few in the last couple of quarters.

**P. Srikar Reddy:** Yes, there is a pipeline. We are looking at actively. Valuations are a bit steep right now so we will not be reckless.

**Moderator:** The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** My question is on the domestic product services business. So, there we have seen some kind of weakness in this quarter; so, YoY growth was one of the weakest in these last five, six quarters. So, is there any kind of pent-up demand that was there now which is tapering down, or we are confident of the growth in the sector? And also, DSO days in this is coming down. So, are we

getting very selective in terms of or is it being driven by better collections or like what is driving that, so if you can throw some light on that?

**J Chakravarthi:** On domestic business, revenue growth was actually 16%. Total is 32%, 33%. PAT growth is 76% growth year-on-year.

**Amit Chandra:** In terms of PAT there has been the growth but that is like compared to the COVID quarter, but in terms of the top line growth I was talking about?

**P. Srikar Reddy:** As I said topline is something which could be any number. We focus on the gross contribution and top line is highly incidental on the revenue mix for that quarter. If you're going to see our top line for this business next Q3 will be huge because that's been the seasonality in that business.

**Amit Chandra:** Also, on the collections part in this business, so what is driving that better collections?

**P. Srikar Reddy:** I think things were obviously a little tight during the COVID period where people were asking for extended credits and so on and so forth. I think things have become a lot better now since the end of that and I think that has led to a healthier collection cycle.

**J Chakravarthi:** We have a very strong collection outlook, and the total working capital investment is also coming down every quarter.

**Amit Chandra:** We have mentioned 77% revenue from cloud and around 75% from IoT business. That is also what is driving the high collections right because the quality of customers that we are engaging has improved significantly in this business?

**P. Srikar Reddy:** Sorry, the question is, are the cloud and the annuity business driving better collections?

**Amit Chandra:** Yes.

**J Chakravarthi:** The nature of business is also helping but business is also improving a lot, quite a lot of opportunities are coming and by nature our continued monitoring of credit quality of the customers and strong follow-up with the customer and strong value delivery to the customers is helping us.

**Moderator:** The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

**Vipul Shah:** We are a platformation based company. So, I'm wondering our requirement of engineers should be less as compared to traditional IT services. So, could you please explain why this mismatch or what I am missing here?

**P. Srikar Reddy:** I have told many times that platformation is not a platform, we are not licensing platforms, we are not IP business, we said we are using our IP as a differentiator to get services business, we are still a services business and because of the platformation or IP we can hope to get better



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margins for our services. We are not a non-linear business model. So, that's what I'm trying to communicate.

**Vipul Shah:** So, our revenues will always be linked with the services?

**P. Srikar Reddy:** You are absolutely right. Unless yes there is a clearly separate license-led business then they will be non-linear. The revenues won't be linked to headcount.

**Rajiv:** This is Rajiv. How are we shaping up on other cloud like AWS and say the GCP. I know they are masters or the leaders in Azure but I just wanted to check on how we are shaping up other clouds.

**P. Srikar Reddy:** As I mentioned, I think maybe two quarters, three quarters back that we have signed up with both these in India and I think both are looking extremely good and we will see them driving solid growth to start with in India market and then like we did with Microsoft, we will then take these partnerships global. We have just signed about a year ago. I think it looks extremely good and we will see growth in our India business driven by these two partnerships and as we did with the other alliance, we will then take it globally.

**Moderator:** As there are no further questions from the participants, I now hand the conference over to Mr. Srikar Reddy for closing comments.

**P. Srikar Reddy:** Okay. Thank you, Margaret. Thank you, everybody for joining the call today and thank you all for your questions, thank you all for your support. I think finance team will get back and share that information. So, thank you all again for joining us today.

**Moderator:** On behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.